



Petroleum Market Report

July 2, 2001

Energy Information Administration
Office of Oil & Gas

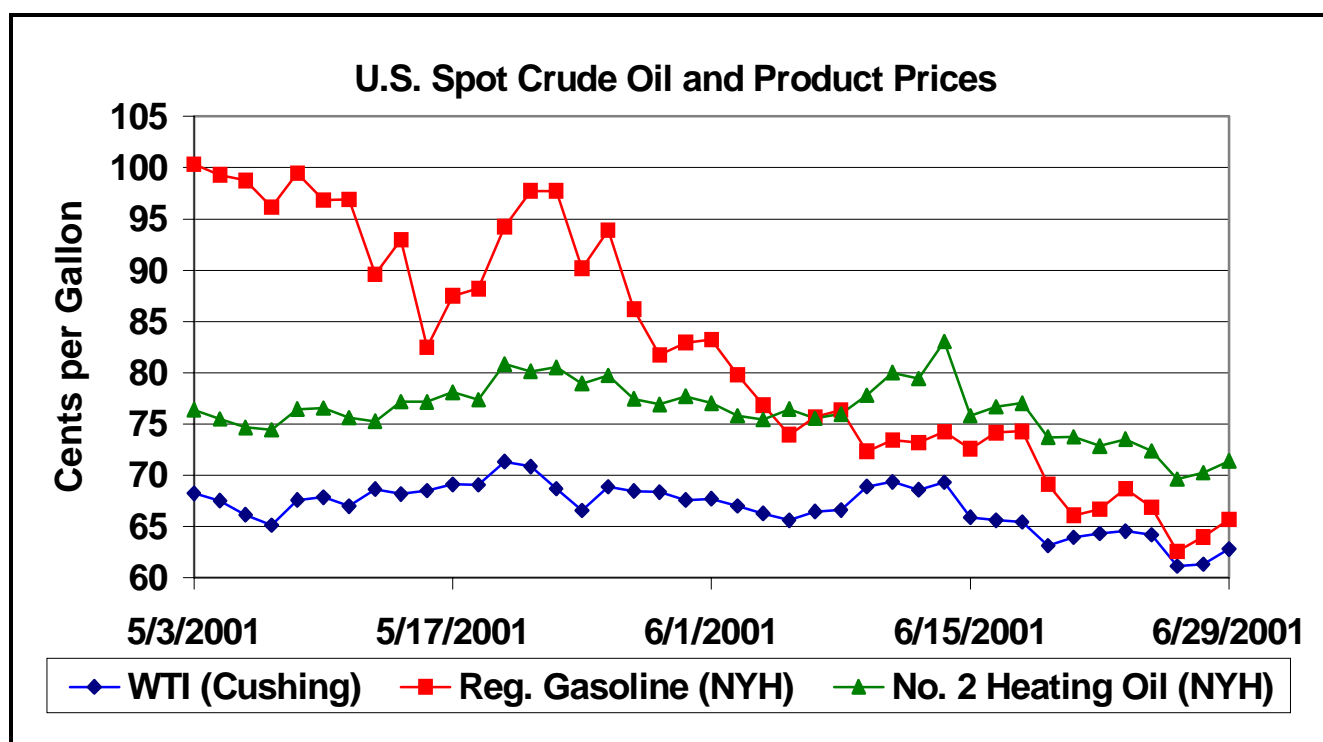
MARKET SUMMARY

U.S. crude oil and petroleum product prices moved still lower last week, as a declining trend that began before Memorial Day continued through the end of June. Markets began the week with an upward correction, but turned downward and bottomed out at midweek, following across-the-board stockbuilds. Gasoline fell to 17-month lows on NYMEX, leading the decline, but all prices strengthened ahead of the weekend amid ongoing uncertainties over the U.N./Iraq oil-for-food program and the upcoming July 3 OPEC meeting. Other issues last week included the expiration of July NYMEX product futures on Friday, and reports of some refiners cutting runs and others switching to maximum distillate production.

Crude oil - markets were dominated all week by a combination of the U.N. Security Council consideration of changes to sanctions on Iraq, and anticipation of potential OPEC actions at the cartel's July 3 meeting. Russian opposition to modifications to sanctions on Iraq, proposed by the United States and United Kingdom, led to a debate over whether to modify the oil-for-food program, or simply extend it through a new phase. Iraqi officials pronounced that exports would not resume unless an unconditional rollover is approved. Meanwhile, OPEC will meet on July 3, amid strong indications that no output changes will be made, regardless of Iraqi status.

Gasoline - prices posted a net decline for the fifth straight week, taking NYMEX front-month futures to their lowest level since January 2000. A stockbuild in the week ending June 22, the fifth straight, put U.S. inventories more than 10 million barrels above year-ago levels.

Distillate - price movements closely mirrored those for crude oil, despite recent reports of refiners switching to maximum distillate production due to relatively strong prices. Although inventories built in the previous week, U.S. stocks remained low in the seasonal average range, but higher than a year ago.



CHRONOLOGY OF RECENT MARKET EVENTS

- 6/29 - rising** - crude oil and petroleum product prices rose across the board, ahead of the weekend, and driven by the United Nations sanctions debate. Iraqi officials said exports would not resume unless the U.N. approves an "oil-for-food" program rollover without any mention of changing sanctions.
- 6/28 - mixed** - most prices posted gains, with gasoline the strongest, despite a general lack of fundamental developments. OPEC ministers continued to broadcast expectations that their July 3 meeting will not result in any change in output, while the United Nations Security Council debated sanctions on Iraq.
- 6/27 - falling** - gasoline led all prices lower for a second straight day, this time in the wake of weekly API and EIA supply reports showing continued stockbuilds. NYMEX July gasoline futures fell to 71.44 cents per gallon, the lowest front-month price since January 2000.
- 6/26 - falling** - all prices dropped solidly, with gasoline again posting the largest change, ahead of the weekly API and EIA supply reports, expected to show crude oil and product stockbuilds. Russian objections have stalled efforts by the U.S. and U.K. to revise Iraqi sanctions, now under debate by the United Nations.
- 6/25 - rising** - prices increased across the board, led by gasoline, in an apparent market correction following sharp declines the previous week. Middle East tensions, along with anticipation of possible actions by OPEC and Iraq, continued to impact U.S. and world markets.
- 6/22 - mixed** - crude oil and gasoline prices moved moderately higher, following reports that U.S. military forces in the Middle East have been put on alert for possible terrorist attacks. Distillate prices weakened on news that at least one refiner had shifted to maximizing distillate production.
- 6/21 - mixed** - crude oil and distillate prices rose slightly, while gasoline continued to decline. World oil markets firmed amid signs that neither the return of Iraqi exports nor an OPEC output increase was likely soon, while gasoline weakened further on a Gulf Coast refinery restart and a freeze on nominations for the Colonial Pipeline, which is filled to capacity.
- 6/20 - falling** - gasoline led all prices lower, following a larger-than-expected stockbuild for the previous week, to a level above the seasonal average range. EIA reported a small crude oil stockdraw, despite expectations of a rebound in imports after two weeks of delays due to Gulf Coast weather.
- 6/19 - mixed** - crude oil prices were slightly lower, while products gained modestly, ahead of the weekly API and EIA supply reports. A significant build in crude oil stocks was expected, along with smaller increases in products. Crude oil also reflected impending July NYMEX contract expiration on Wednesday.